

SERVICE TAX REPLACEMENT

MBT Surcharge

- I. Repeal use tax on services before it takes effect on December 1, 2007 in order to avoid expenses of implementation for taxpayers and Michigan Department of Treasury.
- II. Replace services tax with a surcharge on Michigan Business Tax.
 - a. Surcharge should be on MBT tax itself (i.e., calculated tax after apportionment but before credits).
 - i. Exclude Chapter 2A taxpayers (insurance companies which pay a higher premiums tax under MBT than SBT).
 - ii. Small Business Credit would continue to operate to reduce the alternative profits tax rate to equal 1.8%.
 - b. Modify rebate trigger (Sec. 601) to reduce the surcharge percentage in the event of MBT over-collection. This would replace current rebate, which only applies in 2008 – 2010 and 50% of which is returned to BSF and not taxpayers.
 - c. Cap MBT surcharge at \$2,000,000 per taxpayer (MBT defines taxpayer as unitary business group or person with business activity in Michigan).
 - d. Surcharge to sunset in 2011 along with income tax reduction.
- III. Redirect the following budget stabilization fund (BSF) amounts to replace revenue lost from repeal of the service tax for the month of December and/or reduce the surcharge percentage.
 - a. \$100 million overage from FYE 9/30/07
 - b. \$220 million MBT collection in FY 2008-09 from personal property tax replacement revenues not earmarked for the School Aid Fund.

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Model MBT surcharge legislative language:

New surcharge section (probably in/around section 200)

- I. Except as otherwise provided in this act, a taxpayer subject to the tax imposed under Chapter 2 or Chapter 2B of this act shall pay, for each tax year, an additional budget surcharge tax in an amount equal to **XX** percent of the tax calculated under this act after apportionment as provided in Chapter 3 and before credits under Chapter 4. The additional amount of tax determined under this section shall constitute a part of the tax imposed by this act and shall become due and be paid, collected and enforced as provided in this act.
- II. The maximum additional tax calculated under this section for any taxpayer is \$2,000,000.